



# *Episcopal Housing Corporation*

---

**Financial Statements**  
**December 31, 2017 and 2016**



**Malvin, Riggins & Company, P.C.**  
**Certified Public Accountants**  
**2809 Boston Street, Suite 107**  
**Baltimore, Maryland 21224-4815**  
**(410) 675-2727**

***Episcopal Housing Corporation***

Table of Contents

December 31, 2017 and 2016

---

---

	<u>PAGE</u>
Independent Auditors' Report	1 – 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Change in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 17



**Licensed  
Certified Public Accountants**  
Virginia  
Washington DC  
Maryland  
North Carolina

[www.MalvinRiggins.com](http://www.MalvinRiggins.com)

**Members of**

American Institute of Certified  
Public Accountants

Virginia Society of Certified  
Public Accountants

Greater Washington Society of  
Certified Public Accountants

Maryland Association of  
Certified Public Accountants

North Carolina Association of  
Certified Public Accountants

**Professional Organizations**

Community Associations  
Institute

Center for Nonprofit  
Advancement

Association of Certified Fraud  
Examiners

**Chambers of Commerce**

Virginia Peninsula Chamber of  
Commerce

DC Chamber of Commerce

Outer Banks Chamber of  
Commerce

Baltimore City Chamber of  
Commerce

Baltimore County Chamber of  
Commerce

## **INDEPENDENT AUDITORS' REPORT**

**Board of Directors  
Episcopal Housing Corporation  
Baltimore, Maryland**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Episcopal Housing Corporation, which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and change in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Episcopal Housing Corporation  
Page 2 of 2

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Housing Corporation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*Malvin, Diggins + Company, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

Baltimore, Maryland  
May 3, 2018

## ***Episcopal Housing Corporation***

### Statements of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 744,017	\$ 831,797
Investments	861,734	639,357
Fees receivable, net of allowance for doubtful accounts of \$28,356 in 2017 and \$25,000 in 2016	508,662	418,340
Contributions receivable	-	975
Investment in and receivables from St. Stephens Court, LLC (a related party)	131,182	135,147
Development costs and advances	50,869	64,508
Due from related party	8,000	8,000
Construction in progress - Argyle	-	124,156
Leasehold improvements, less accumulated amortization of \$64,163 in 2017 and \$48,551 in 2016	227,576	243,188
CURE Building, less accumulated depreciation of \$107,723 in 2017 and \$101,313 in 2016	116,594	123,004
Argyle Building, less accumulated depreciation of \$8,561 in 2017 and \$0 in 2016	2,111,204	-
Cash restricted under agreement with tenant	186,167	186,093
<b>Total assets</b>	<b><u>4,946,005</u></b>	<b><u>2,774,565</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	4,711	-
Tenant security deposits	1,759	-
Mortgage loan payable - CURE Building	84,688	120,328
Mortgage loan payable - Argyle	700,000	-
<b>Total liabilities</b>	<b><u>791,158</u></b>	<b><u>120,328</u></b>
<b>Net assets -</b>		
Unrestricted - available for general activities	4,154,847	2,559,418
Temporarily restricted	-	94,819
<b>Total net assets</b>	<b><u>4,154,847</u></b>	<b><u>2,654,237</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 4,946,005</u></b>	<b><u>\$ 2,774,565</u></b>

See the independent auditors' report and accompanying notes.

**Episcopal Housing Corporation**

## Statements of Activities and Change in Net Assets

Years Ended December 31, 2017 and 2016

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:						
Contributions and other grants	\$ 1,327,573	\$ -	\$ 1,327,573	\$ 153,456	\$ 94,819	\$ 248,275
Development fees	212,625	-	212,625	460,625	-	460,625
Asset management fees	69,394	-	69,394	37,520	-	37,520
Rental income, net of direct expenses	142,472	-	142,472	156,729	-	156,729
Investment income	25,337	-	25,337	9,555	-	9,555
	<u>1,777,401</u>	<u>-</u>	<u>1,777,401</u>	<u>817,885</u>	<u>94,819</u>	<u>912,704</u>
Net assets released from restrictions	<u>94,819</u>	<u>(94,819)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,872,220</u>	<u>(94,819)</u>	<u>1,777,401</u>	<u>817,885</u>	<u>94,819</u>	<u>912,704</u>
Expenses:						
Salaries and benefits	202,185	-	202,185	282,023	-	282,023
Professional services	11,101	-	11,101	8,600	-	8,600
Occupancy costs	32,736	-	32,736	26,365	-	26,365
General and administrative expenses	24,076	-	24,076	24,062	-	24,062
Bad debts and project investment losses	6,693	-	6,693	13,386	-	13,386
Total expenses	<u>276,791</u>	<u>-</u>	<u>276,791</u>	<u>354,436</u>	<u>-</u>	<u>354,436</u>
Change in net assets	<u>1,595,429</u>	<u>(94,819)</u>	<u>1,500,610</u>	<u>463,449</u>	<u>94,819</u>	<u>558,268</u>
Net assets - beginning of year	<u>2,559,418</u>	<u>94,819</u>	<u>2,654,237</u>	<u>2,095,969</u>	<u>-</u>	<u>2,095,969</u>
Net assets - end of year	<u>\$ 4,154,847</u>	<u>\$ -</u>	<u>\$ 4,154,847</u>	<u>\$ 2,559,418</u>	<u>\$ 94,819</u>	<u>\$ 2,654,237</u>

See the independent auditors' report and accompanying notes.

## ***Episcopal Housing Corporation***

### Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,500,610	\$ 558,268
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	32,622	22,020
Bad debts and project investment losses	6,693	13,386
Unrealized (gains) losses on investments	(9,625)	(8,043)
Loss on sale of rental property	-	3,559
(Increase) decrease in:		
Fees receivable	(97,015)	(149,381)
Contributions receivable	975	14,025
Other related party receivables	3,965	(39,059)
Development costs and advances	13,639	43,720
Increase (decrease) in:		
Accounts payable and accrued expenses	4,711	(5,775)
Tenant security deposits	1,759	-
Net cash provided by operating activities	<u>1,458,334</u>	<u>452,720</u>
Cash flows from investing activities:		
Purchase of investments, including reinvested dividends	(212,826)	(317,188)
Proceeds from sale of rental property	-	10,782
Capital expenditures	<u>(1,297,648)</u>	<u>(124,156)</u>
Net cash used in investing activities	<u>(1,510,474)</u>	<u>(430,562)</u>
Cash flows from financing activities:		
Principal payments of rental property debt	(35,640)	(34,433)
Repayment of note receivable	-	19,906
Net cash used in financing activities	<u>(35,640)</u>	<u>(14,527)</u>
Net (decrease) increase in cash and cash equivalents	(87,780)	7,631
Cash and cash equivalents - beginning of year	<u>831,797</u>	<u>824,166</u>
Cash and cash equivalents - end of year	<u>\$ 744,017</u>	<u>\$ 831,797</u>

See the independent auditors' report and accompanying notes.



## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 1 - CORPORATE ORGANIZATION, MISSION, AND NATURE OF OPERATIONS**

Episcopal Housing Corporation (EHC) is a non-stock, charitable organization exempt from federal income tax under section 501(a) of the Internal Revenue Code, as an organization described in section 501(c)(3). It was incorporated on March 30, 1995.

EHC's mission is to respond to God's call to establish justice for the most in need by building affordable housing and creating the foundations for healthy and sustainable communities.

Since its incorporation, EHC has been the developer and/or agent for other organizations in the acquisition, construction, and renovation of residential housing and community facilities. Until its adoption of a new strategic plan in early 2005, EHC had not planned to own or operate housing projects. Since 2005, EHC has been pursuing property ownership primarily through control of Single Asset Limited Liability Corporations. In the early stages of evaluating and choosing projects, EHC has, in certain circumstances, made expenditures for acquisition and pre-development costs without assurance that such expenditures would be recovered. When such costs are deemed to be unrecoverable, they are included in project investment losses.

In October 2002, EHC purchased and concurrently leased a three-story building to The Johns Hopkins Hospital. See note 13 for details about these transactions and the mortgage loans on these properties.

In 2015, EHC began to operate the Woodlawn Oxford house, and then subsequently leased apartments to male tenants who have overcome substance abuse. EHC also operates Mura Oxford House, a related party.

On August 9, 2016, EHC formed the Sojourner Argyle, LLC as a wholly affiliate of EHC. The purpose of the LLC is to provide permanent supportive housing for homeless persons.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared on the accrual basis of accounting and are intended to present net assets, revenues and support, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The financial statements include the accounts of EHC and affiliates under its control. EHC accounts for its interest in St. Stephen's Court, LLC using the equity method of accounting.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses, during the reporting period. Actual amounts could differ from those estimates.

Investments are recorded at fair value based on quoted prices in active markets (all Level 1 measurements). Investment return, which consists of interest and dividend income earned, realized gains or losses, and the unrealized appreciation (depreciation) on those investments, is included in the statement of activities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near-term would materially affect the amounts reported in the financial statements.

Major expenditures for property and equipment having a useful life of five (5) years or more are capitalized. Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed over estimated useful lives ranging from five (5) to thirty (40) years using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the terms of the related lease. EHC uses the direct expensing method to account for planned major maintenance activities.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long donated assets must be maintained, EHC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. EHC reclassifies temporarily restricted net assets to unrestricted net assets at that time.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

EHC reviews its rental properties for impairment whenever changes in circumstances indicate that the carrying value of an assets may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss would be reported. No impairment loss has been recognized for the years ended December 31, 2017 and 2016, respectively.

Unconditional promises to give that are expected to be collected within one (1) year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over longer periods are recorded at present value of their estimated future cash flows.

Fees receivable are reported at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. Management's estimate of the allowance is based on historical collection experience and a review of the current status of fees receivable.

Highly liquid investments with maturities of three (3) months or less at date of purchase are considered to be cash equivalents.

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of donor restrictions. Donations of securities are recorded at fair market value at the date of the gift and the gain or loss on sale is recognized in the period in which the sale is made. Support that is restricted is reported as an increase in unrestricted net assets if the restriction is satisfied in the reporting period in which the support is recognized.

EHC recognizes donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

EHC received commitments of funds to be invested in projects which are in various stages of development or construction. Commitments of funds for projects not owned by EHC are not included in EHC's accounts since the projects for which they are received are to be owned by others.

EHC generally recognizes development fees earned on long-term contracts on the percentage of completion basis. Asset management fees are generally recognized as earned under terms of the related agreements.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 3 - RETIREMENT PLAN**

EHC maintains a 403(b) retirement plan covering all employees. EHC will match each employee's contribution up to 3% of the employee's salary. Retirement plan expense was approximately \$6,400 and \$6,200 for the years ended December 31, 2017 and 2016, respectively.

### **NOTE 4 - CONCENTRATIONS**

Approximately 72% and 90% of receivables are from two (2) and three (3) customers at December 31, 2017 and 2016, respectively. Approximately 97% and 95% of development fee revenues are from one (1) and two (2) customers for the years ended December 31, 2017 and 2016, respectively.

### **NOTE 5 - CREDIT RISK**

EHC maintains a cash balance at one (1) bank that occasionally exceeds \$250,000, the amount insured by the Federal Deposit Insurance Corporation (FDIC); however, EHC has not experienced any losses with respect to its bank balances in excess of government provided insurance.

### **NOTE 6 - INVESTMENT IN AND RECEIVABLES FROM ST. STEPHEN'S COURT, LLC**

EHC is the sole member of 2401, LLC, the managing member of St. Stephen's Court, LLC. PNC Bank is the limited investment member of St. Stephen's Court, LLC, which owns the St. Stephen's Court Apartment (the Project), an affordable housing project in West Baltimore consisting of seventy-two (72) rental units in six (6) buildings and a management office and community amenities in a seventh building. The Project qualified for and received an allocation of low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code. As a result, the Project is subject to regulations relating to eligibility of occupants and unit gross rental charges, among other matters, to the end of the compliance period (in 2050); however, PNC Bank intends to withdraw from the LLC in 2025. The previous owner of the Project has an option to re-purchase it for a price equal to the remaining debt balance at the end of the compliance period. 2401, LLC has the second option to purchase the Project at that time.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 6 - INVESTMENT IN AND RECEIVABLES FROM ST. STEPHEN'S COURT, LLC**

**(continued)**

EHC is the sole member of 2401, LLC and holds a 0.01% membership interest in St. Stephen's Court, LLC and receives a share of distributions of net cash flow. 2401, LLC's share of net cash flow for the years ended December 31, 2017 and 2016 were approximately \$93,300 and \$97,600, respectively and is included in rental income. 2401, LLC has agreed to lend St. Stephen's Court, LLC amounts required to fund operating deficits, if any, incurred by it through the end of the tax credit compliance period (2050) to the extent they exceed the Project's operating reserve. The Project's operating reserve was \$243,155 and \$242,654, as of December 31, 2017 and 2016, respectively. St. Stephen's Court, LLC also holds a Retenancing Reserve account to reserve against the loss of Housing Choice Vouchers. The balance in this account was \$296,886 and \$295,357 as of December 31, 2017 and 2016, respectively.

2401, LLC is entitled to receive an annual company management fee for property management oversight, tax credit compliance monitoring and related services provided to St. Stephen's Court, LLC. The base fee is \$10,800, subject to an annual increase of 3%, and was approximately \$12,900 and \$12,500 for the years ended December 31, 2017 and 2016, respectively. 2014, LLC is also entitled to receive an annual supplementary management fee of \$25,000 for services in the ongoing management of the Project. At December 31, 2017 and 2016, management fees receivable from St. Stephen's Court, LLC were approximately \$37,900 and \$37,500, respectively.

### **NOTE 7 - DEVELOPMENT COSTS AND ADVANCES**

EHC, as a developer and/or agent, advances money during the development of the project as costs are incurred. During the development stage and upon completion, EHC will be reimbursed costs previously advanced. At December 31, 2017 and 2016, development costs and advances were approximately \$51,000 and \$64,500, respectively.

### **NOTE 8 - INCOME TAXES**

EHC is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and comparable state law. Contributions to EHC are tax deductible within the limitations prescribed by the Code. EHC has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

The Internal Revenue Service has not examined any of EHC's income tax returns for the past three (3) years, which are subject to examination. EHC has not taken any questionable tax positions with respect to unrelated business income or any other matters that might jeopardize its 501(c)(3) status.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 8 - INCOME TAXES (continued)**

2401, LLC and Sojourner Argyle, LLC, for-profit single member LLCs, wholly owned affiliates of EHC, are not required to file separate income tax returns. All income and losses pass through to the member.

### **NOTE 9 - OTHER RELATED PARTY TRANSACTIONS**

EHC manages The Mura Oxford House providing permanent housing for men who have recovered from substance abuse. The Mura Oxford House is owned by Episcopal Housing Community Development Corporation (EHCDC), (a related party), which is also a Community Housing Development Organization. Rental income, net of associated rental expenses of \$13,900 and \$19,100, was approximately \$6,300 and \$1,500 for the years ended December 31, 2017 and 2016.

In 2013, EHC entered into a development agreement with EHCDC to develop Ashburton Apartments. The property is owned by 3401 Ashburton, LLC (a single asset corporation controlled by EHCDC). Under the terms of the agreement, EHC managed the renovation of the building for a fee and provided acquisition and pre-development funding through 2013. Development was completed in 2014. Outstanding fees receivable related to this project were approximately \$192,500 for years ending December 31, 2017 and 2016. Outstanding development cost advances related to this project were approximately \$0 and \$4,400 at December 31, 2017 and 2016, respectively.

EHC internally developed the Sojourner at Argyle Avenue building, a 12 unit low income housing project. The project was funded with contributions of approximately \$1,500,000 and a loan of \$700,000. EHC capitalized \$120,000 of payroll expenses in the cost of the building. The building was completed and occupied in November of 2017. A contribution of \$726,000 has a recorded deed of trust that states should the building be converted from a low income housing project, the entire proceeds would need to be repaid. The 0% interest loan of \$700,000 has repayment terms from surplus cash only, however the entire balance is due in 40 years, approximately October 2057.

### **NOTE 10 - COMMITMENTS**

Under the terms of a memorandum of understanding with the Episcopal Diocese of Maryland, EHC improved a property owned by the Diocese and will lease the property from the Diocese. The lease term will approximate thirty (30) years and lease payments are satisfied by the value of the improvements made to the building by EHC. The cost of the completed improvements were approximately \$292,000, and EHC moved into the new location in late 2013.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 10 - COMMITMENTS (continued)**

Amortization of leasehold improvements was approximately \$15,600 for the years ended December 31, 2017 and 2016.

### **NOTE 11 - FUNCTIONAL EXPENSES**

Functional expenses consisted of the following for the years ended December 31,:

	<u>2017</u>	<u>2016</u>
Program services	\$ 220,729	\$ 289,754
Management and general	44,590	51,079
Fund raising activities	<u>11,472</u>	<u>13,603</u>
	<u>\$ 276,791</u>	<u>\$ 354,436</u>

### **NOTE 12 - REVENUE RECOGNITION**

EHC normally recognizes development fee income on a percentage of completion basis. However, fees of approximately \$85,000 earned on a major, long-term project completed in 2007 were not recorded since there was a shortfall in total funding for the project. Payments of \$59,622 have been received to date, of which \$10,000 was donated back to the project for roof repairs. The remaining balance of approximately \$25,000 will be recognized as revenue when received.

EHC normally recognizes asset management fee income as earned during the period it is earned. However, management has determined that in the case of Parktown Associates, LLC, the fee earned is not collectible; therefore, no fee has been recognized for the years ended December 31, 2017 and 2016, respectively.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 13 - CURE BUILDING PURCHASE AND MORTGAGE LOAN PAYABLE**

On October 18, 2002, EHC purchased the CURE building, a three-story office building on North Broadway in Baltimore City. The aggregate cost of the purchase, including incidental costs, was \$224,817. On the same date, EHC entered into a twenty (20) year, triple-net lease agreement with The Johns Hopkins Hospital (JHH) for the use of the building by its child and adolescent psychiatry community programs. In 2012 the lease was amended to correspond with the refinanced loan and extends through February 2020. The new lease may be terminated with thirty (30) days notice and a termination fee of the lesser of the outstanding principal of the loan or twenty-four (24) months of base rent (\$105,120). Annual rentals of \$52,560 are payable to EHC in each of the years through 2019. The aggregate rentals payable to EHC in years thereafter total approximately \$8,800.

EHC's purchase of the CURE Building was funded by a first mortgage loan of \$400,000 from a commercial bank. Under the lease agreement with JHH, the loan proceeds in excess of the costs incurred by EHC in making the purchase were required to be expended for improvements to the property on behalf of JHH. This excess cash of approximately \$186,000 as of December 31, 2017 and 2016, is being held by EHC in a separate bank account and is classified as restricted cash on the statements of financial position. EHC expects JHH will direct EHC to use this cash to make improvements on the CURE Building.

The bank loan was an interest only note until its original due date of October 18, 2012. The loan was refinanced in November 2012 with an amortizing loan due in monthly payments of \$3,380 through February 2020. The interest rate on the note was 8.125% per annum through April 2009. Beginning May 2009, the interest rate was changed to 6.14%. Beginning in November 2012, the interest rate became 4.61%. The loan is secured by a first mortgage on the property and the lease between EHC and JHH. The balance of the mortgage was approximately \$84,700 and \$120,300 as of December 31, 2017 and 2016, respectively.

Future principal payments are as follows for the years ending December 31,:

2018	\$	37,479
2019		39,244
2020	\$	7,965



## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 14 - FAIR VALUE MEASUREMENTS**

The accounting codification establishes a framework for measuring fair value. That framework provides a fair hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives priority to quoted prices in active markets for identical assets or liabilities (Level 1) the lowest priority to unobservable inputs (Level 3) If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the assets and liabilities. The hierarchy requires the use of observable market data when available.

The three levels of the fair value hierarchy as defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities and market-corroborated inputs.

If the assets or liabilities have a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the assets or liabilities.

Level 3 - Inputs to the valuation methodology are unobservable for the assets or liabilities and are significant to the fair value measurement.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

---

### **NOTE 14 - FAIR VALUE MEASUREMENTS (continued)**

Fair values of assets and liabilities measured on a recurring basis of December 31, are as follows:

	Fair Value Measurements at Reporting Date			
	Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	<u>Fair Value</u>			
<u>December 31, 2017</u>				
Mutual funds	<u>\$ 861,734</u>	<u>\$ 861,734</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>861,734</u>	<u>861,734</u>	<u>-</u>	<u>-</u>
<u>December 31, 2016</u>				
Mutual funds	<u>639,357</u>	<u>639,357</u>	<u>-</u>	<u>-</u>
	<u>\$ 639,357</u>	<u>\$ 639,357</u>	<u>\$ -</u>	<u>\$ -</u>

### **NOTE 15 - SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest was approximately \$4,900 and \$6,700 for the years ended December 31, 2017 and 2016, respectively.

Non-cash investing and financial activities -

A mortgage of \$700,000 was used to finance construction of the Sojourner building during the year ended December 31, 2017.

A mortgage of approximately \$12,200 was paid at the settlement of the building sold during the year ended December 31, 2016.

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

---

### **NOTE 16 - INVESTMENTS**

EHC's investments are carried at fair value (as determined in quoted prices in an active market for identical assets).

Investments consisted of the following at December 31,:

	<b>2017</b>		<b>2016</b>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Publicly traded mutual funds	\$ 850,030	\$ 861,734	\$ 637,204	\$ 639,357

Investment revenue consisted of the following for the years ended December 31,:

	<b>2017</b>	<b>2016</b>
Interest and dividends	\$ 15,712	\$ 11,094
Realized gains (losses) on sales	-	-
Unrealized gains (losses)	9,625	8,043
Loss and expenses on sale of Millington	-	(9,580)
	<u>\$ 25,337</u>	<u>\$ 9,557</u>

### **NOTE 17 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following for the years ended December 31,:

	<b>2017</b>	<b>2016</b>
Time	\$ -	\$ 975
Argyle project	-	93,844
	<u>\$ -</u>	<u>\$ 94,819</u>

## ***Episcopal Housing Corporation***

Notes to Financial Statements

December 31, 2017 and 2016

---

### **NOTE 18 - RECLASSIFICATION**

Certain amounts pertaining to fiscal year 2016 have been reclassified to conform to current year presentation.

### **NOTE 19 - SUBSEQUENT EVENTS**

EHC has evaluated subsequent events through the date the financial statements were available to be issued on May 3, 2018, and determined the following to disclose:

Effective January 1, 2018, EHC acquired related party EHCDC for no cash consideration. All the assets of EHCDC were transferred to EHC and all liabilities of EHCDC were assumed by EHC.